

State of Alaska FY2010 Governor's Operating Budget

Department of Revenue APFC Operations Component Budget Summary

Component: APFC Operations

Contribution to Department's Mission

The mission of the Alaska Permanent Fund Corporation (APFC) is to maximize the value of the Permanent Fund within return objectives.

Core Services

- Investment management for Alaska Permanent Fund assets

| End Result | Strategies to Achieve End Result |
|---|--|
| A: Maximize the value of the Fund <u>Target #1:</u> A long-term 5% real rate of return <u>Status #1:</u> The Fund ended fiscal year 2008 with a value of \$35.9 billion after transferring \$1.3 billion to the Department of Revenue for Permanent Fund dividend distribution. The long-term real rate of return for the current rolling 10-years 1999 - 2008 was 3.84%. This is the first 10-year period in Fund history that the Fund did not return at least 5%. | A1: Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return <u>Target #1:</u> The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board <u>Status #1:</u> For the 10-year period ended June 30, 2008, the Fund outperformed its benchmark by 0.2%. The Fund's total rate of return for the 10-year period was 6.4% compared to our benchmark of 6.2%. Over the 1-year period ended June 30, 2008, the Fund's performance matched the benchmark performance of -3.6%. |

| Major Activities to Advance Strategies | |
|--|---|
| <ul style="list-style-type: none"> Selecting and contracting with external investment managers for specific expertise managing stocks, bonds, real estate, and alternative investments. Internal bond portfolio management. Daily, monthly, quarterly, and annual performance and compliance reporting. Renegotiation of fees on an ongoing basis. | <ul style="list-style-type: none"> Preparation of reports, newspaper inserts and other publications. Maintenance of web site with current content. Research evolving alternative investment strategies. Continual review of corporate best practices and due diligence oversight. |

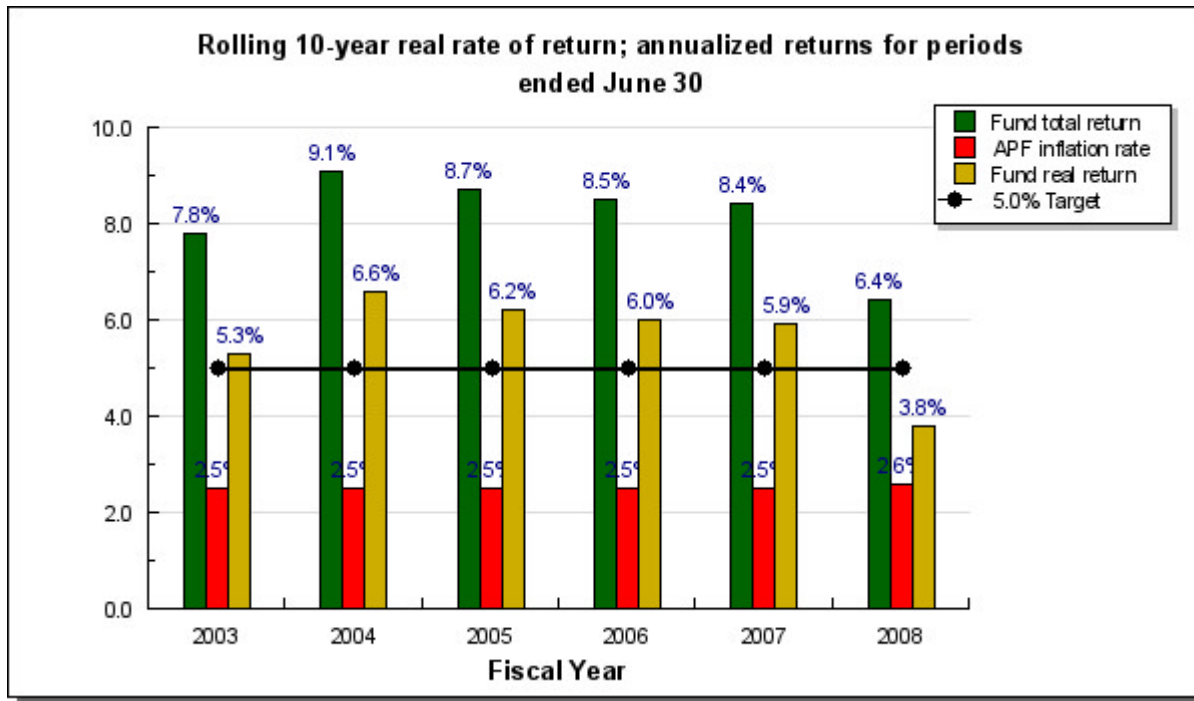
| FY2010 Resources Allocated to Achieve Results | |
|---|-------------------|
| FY2010 Component Budget: \$9,781,200 | Personnel: |
| | Full time 35 |
| | Part time 0 |
| | Total 35 |

Performance

A: Result - Maximize the value of the Fund

Target #1: A long-term 5% real rate of return

Status #1: The Fund ended fiscal year 2008 with a value of \$35.9 billion after transferring \$1.3 billion to the Department of Revenue for Permanent Fund dividend distribution. The long-term real rate of return for the current rolling 10-years 1999 - 2008 was 3.84%. This is the first 10-year period in Fund history that the Fund did not return at least 5%.



Analysis of results and challenges: The Fund's market value was to \$35.9 billion on 6/30/2008 (after \$1.3 billion dividend payout), down \$1.9 billion from 6/30/2007 ending market value. Fiscal year 2008 will likely be remembered as one of the most challenging years for the world's markets. Widespread problems with subprime mortgages and energy and commodity prices created extremely volatile markets and a total Fund annual return for FY2008 of -3.6%.

The Fund's long-term real rate of return for the period FY1999 - FY2008 was 3.8%. This is the first 10-year period in Fund history that the Fund did not return at least a 5.0% real rate of return. This performance period included this year's challenging markets and the down markets in 2001 - 2003 that resulted from the dot.com collapse. We do not believe that this is a situation where the metrics drive a response because the Fund outperformed its 10-year benchmark and compared well against its peers.

To achieve a target total rate of return, the Board of Trustees manages risk by strategically allocating the Fund among stocks, bonds, real estate, and recently, alternative investments. Different types of assets are influenced differently by factors such as the economic cycle, interest rates, inflation and fiscal policy. A mix of asset types whose returns move out of sync with one another moderates the Fund's total volatility.

Each year the Board fine-tunes its asset allocation to adjust to changes in the long term market environment. Its current goal is to earn 5% over the rate of inflation in the long run.

A1: Strategy - Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return

Target #1: The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board

Status #1: For the 10-year period ended June 30, 2008, the Fund outperformed its benchmark by 0.2%. The Fund's total rate of return for the 10-year period was 6.4% compared to our benchmark of 6.2%. Over the 1-year period ended June 30, 2008, the Fund's performance matched the benchmark performance of -3.6%.

APFC total return versus Benchmark return

| Fiscal Year | APFC Return | Benchmark |
|-------------|-------------|-----------|
| FY 2008 | -3.6% | -3.6% |
| FY 2007 | 17.1% | 17.1% |
| FY 2006 | 11.0% | 10.5% |
| FY 2005 | 10.4% | 10.5% |
| FY 2004 | 14.2% | 14.1% |
| FY 2003 | 4.5% | 4.8% |
| FY 2002 | -2.2% | -3.7% |
| FY 2001 | -3.3% | -4.5% |

Analysis of results and challenges: The Board of Trustees has set an investment goal of a 5% real rate of return over time. Using data on the past performance of each asset allocation, along with historical volatility, the Board crafts an asset allocation that is expected to provide this return within an acceptable level of risk. The overriding charge is that the Board must, in all of its decisions, apply a level of prudence that is commensurate with that of other institutional investors.

Returns are measured against the asset allocation's benchmark. This is a composite figure comprised of the performance of the underlying markets in which each of the Fund's portfolios is invested, weighted for their allocation within the Fund. Total return by itself is not an accurate measure of the Fund's performance, but should be compared to the benchmark as well, as the benchmark will reflect the market conditions for the period.

Key Component Challenges

- Planning for and managing investment risk incorporating the capital market assumptions and projected volatility for the Fund.
- Maintaining corporate best practices and necessary due diligence relating to an ever growing and complex Permanent Fund.
- Ensuring that investment policies maintain the balance between the Fund's competing mandates of protecting the Fund to benefit future generations and producing income to benefit current generations.
- Attracting and retaining qualified investment officers.
- Educating the general public on the Fund's complex structure and investments.
- Maintaining independent data systems to compete in global financial markets.

Significant Changes in Results to be Delivered in FY2010

No changes in results delivered.

Major Component Accomplishments in 2008

- The Funds total rate of return for the 10-year period ended June 30, 2008 was 6.4% compared to our benchmark of 6.2%.
- Although the Fund's total rate of return was -3.6% for the 1-year period ended June 30, 2008, the Fund's performance matched the benchmark performance of -3.6%.
- The Fund had a value of \$35.9 billion after accounting for the Alaska Permanent Fund Dividend distribution and other appropriations at the end of FY2008.

- Implemented infrastructure as a new asset class and hired the Fund's first two managers.
- Completed the final stage in the process to restructure the stock portfolio by hiring (8) eight non-U.S. managers.

Statutory and Regulatory Authority

AS 37.13 Alaska Permanent Fund and Corporation
15 AAC 137.410 - 15 AAC 137.990
15 AAC 137.610

Contact Information

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**APFC Operations
Component Financial Summary**

All dollars shown in thousands

| | FY2008 Actuals | FY2009 Management Plan | FY2010 Governor |
|---|-----------------------|-----------------------------------|------------------------|
| Non-Formula Program: | | | |
| Component Expenditures: | | | |
| 71000 Personal Services | 4,586.9 | 5,193.2 | 5,252.2 |
| 72000 Travel | 219.0 | 355.0 | 429.1 |
| 73000 Services | 3,372.4 | 3,905.0 | 3,905.0 |
| 74000 Commodities | 86.9 | 114.9 | 114.9 |
| 75000 Capital Outlay | 49.4 | 80.0 | 80.0 |
| 77000 Grants, Benefits | 0.0 | 0.0 | 0.0 |
| 78000 Miscellaneous | 0.0 | 0.0 | 0.0 |
| Expenditure Totals | 8,314.6 | 9,648.1 | 9,781.2 |
| Funding Sources: | | | |
| 1105 Alaska Permanent Fund Corporation Receipts | 8,314.6 | 9,648.1 | 9,781.2 |
| Funding Totals | 8,314.6 | 9,648.1 | 9,781.2 |

Estimated Revenue Collections

| Description | Master Revenue Account | FY2008 Actuals | FY2009 Management Plan | FY2010 Governor |
|---|---------------------------------------|-----------------------|-----------------------------------|------------------------|
| Unrestricted Revenues | | | | |
| None. | | 0.0 | 0.0 | 0.0 |
| Unrestricted Total | | 0.0 | 0.0 | 0.0 |
| Restricted Revenues | | | | |
| Permanent Fund Earnings Reserve Account | 51373 | 8,314.6 | 9,648.1 | 9,781.2 |
| Restricted Total | | 8,314.6 | 9,648.1 | 9,781.2 |
| Total Estimated Revenues | | 8,314.6 | 9,648.1 | 9,781.2 |

**Summary of Component Budget Changes
From FY2009 Management Plan to FY2010 Governor**

All dollars shown in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--|----------------------|----------------------|--------------------|--------------------|
| FY2009 Management Plan | 0.0 | 0.0 | 9,648.1 | 9,648.1 |
| Adjustments which will continue current level of service: | | | | |
| -FY2010 Wage and Health Insurance Increases for Bargaining Units with Existing Agreements | 0.0 | 0.0 | 59.0 | 59.0 |
| Proposed budget increases: | | | | |
| -Travel Increment | 0.0 | 0.0 | 74.1 | 74.1 |
| FY2010 Governor | 0.0 | 0.0 | 9,781.2 | 9,781.2 |

**APFC Operations
Personal Services Information**

| Authorized Positions | | | Personal Services Costs | |
|----------------------|---|----------------------------------|----------------------------------|------------------|
| | <u>FY2009</u> <u>Management</u> <u>Plan</u> | <u>FY2010</u> <u>Governor</u> | | |
| Full-time | 35 | 35 | Annual Salaries | 3,900,545 |
| Part-time | 0 | 0 | Premium Pay | 6,840 |
| Nonpermanent | 2 | 2 | Annual Benefits | 1,635,047 |
| | | | <i>Less 5.73% Vacancy Factor</i> | (317,772) |
| | | | Lump Sum Premium Pay | 0 |
| | | | Board Honoraria | 27,540 |
| Totals | 37 | 37 | Total Personal Services | 5,252,200 |

Position Classification Summary

| Job Class Title | Anchorage | Fairbanks | Juneau | Others | Total |
|--------------------------------|-----------|-----------|-----------|----------|-----------|
| Accountant | 0 | 0 | 6 | 0 | 6 |
| Admin Assistant | 0 | 0 | 1 | 0 | 1 |
| Administrative Assistant | 0 | 0 | 1 | 0 | 1 |
| Administrative Officer | 0 | 0 | 2 | 0 | 2 |
| Administrative Specialist | 0 | 0 | 4 | 0 | 4 |
| Attorney V | 0 | 0 | 1 | 0 | 1 |
| Chief Investment Officer | 0 | 0 | 1 | 0 | 1 |
| Controller | 0 | 0 | 1 | 0 | 1 |
| Dir of Information Technology | 0 | 0 | 1 | 0 | 1 |
| Director of Finance | 0 | 0 | 1 | 0 | 1 |
| Executive Director, PFC | 0 | 0 | 1 | 0 | 1 |
| Information Technology Spec | 0 | 0 | 2 | 0 | 2 |
| Intern | 0 | 0 | 2 | 0 | 2 |
| Investment Associate | 0 | 0 | 3 | 0 | 3 |
| Investment Officer | 1 | 0 | 7 | 0 | 8 |
| Research & Liaison Officer | 0 | 0 | 1 | 0 | 1 |
| Sr Information Technology Spec | 0 | 0 | 1 | 0 | 1 |
| Totals | 1 | 0 | 36 | 0 | 37 |

Component Board Summary

| Board Description | Member Count | Pay Per Day | Budgeted Days | Additional Pay | Total Cost |
|----------------------------|-----------------|----------------|------------------|-------------------|------------------|
| Permanent Fund Corporation | 4 | 400.00 | 16 | 0.00 | 27,540.48 |
| Total | | | | | 27,540.48 |